MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2022/2023

BEC1614 –MICROECONOMICS

(All sections / Groups)

22 NOVEMBER 2022
9.00 A.M. to 12.00 P.M.
(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of 5 pages excluding the cover page with 4 questions only.

2. Attempt **ALL** questions. All questions carry equal marks and the distribution of the marks for each question is given.

3. Please write all your answers in the Answer Booklet provided

QUESTION 1

Postpone minimum wage hike, 36% rise too high for rural oil palm planters

KUALA LUMPUR: Eleven associations have called for the RM1,500 monthly minimum wage effective May 1, 2022 to be postponed as the 36 per cent increase is a significant hike for oil palm planters in rural areas recovering from the Covid-19 pandemic amid crop losses, workers shortage and higher input cost. At present, the minimum wage in 57 cities and towns nationwide is set at RM1,200 a month, and RM1,100 for rural areas.

Source: The Sun Daily, 6 April 2022.

The following questions are on the implications of the recent minimum-wage RM1,500 effective May 1, 2022 for palm oil estate workers.

(a) Suppose minimum wage is above the equilibrium wage for palm oil estate workers. Using a demand and supply diagram of the market for palm oil estate workers, show the market wage, the number of workers who are employed, the number of workers who are unemployed, and also the total wage payments to the workers.
(10 marks)

(b) Now suppose the estate labour union proposes an increase in the minimum wage. What effect would this increase have on the employment of estate workers? Does the change in employment depend on the elasticity of demand, the elasticity of supply, both elasticities, or neither? Explain.
(5 marks)

(c) What effect would this increase in the minimum wage have on unemployment? Does the change in unemployment depend on the elasticity of demand, the elasticity of supply, both elasticities, or neither? Explain. (5 marks)

(d) Comment if the demand for the estate worker were inelastic, would the proposed increased in the minimum wage raise or lower total payment to the workers? Do you think the total payment would be higher or lower if the demand for the estate worker would be elastic? (5 marks)

(Total: 25 marks)

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QUESTION 2

(a) Years ago, an apple producer argued that the United States should enact a tariff, or a tariff, or a tax, on imports of bananas. His reasoning was that "the enormous imports of cheap bananas into the United States tend to curtail the domestic consumption of fresh fruits produced in the United States."

i. Was the apple producer assuming that apples and bananas are substitutes or complements? Briefly explain.

(2 marks)

ii. If a tariff on bananas acts as an increase in the cost of supplying bananas in the United States, use two demand and supply graphs to show the effects of the apple producer's proposal. (i) One graph should show the effect on the banana market in the United States, and (ii) the other graph should show the effect on the apple market in the United States. Label the change in equilibrium price and quantity in each market and any shifts in the demand and supply curves.

(4 marks)

(b) The Dream Cafe determines that at current prices, the demand for its sandwiches has a price elasticity of -2 in the short run, while the price elasticity for its cappuccino is -1. If the mart decides to raise the price of both products by 10 percent, what will happen to its sales and sales revenue of the two products?

i. Sandwiches. (3 marks)

ii. Cappuccino. (3 marks)

(c)

Table 1

Hobby magazine		Theatre	
Quantity (units)	**Marginal utility**	**Quantity (tickets)**	**Marginal utility**
1	300	1	400
2	240	2	340
3	180	3	240
4	120	4	160
5	60	5	80
6	0	6	0

Continued...

Assume that Damien's budget for weekend leisure activities is RM200; refer to Table 1 to answer the following questions:

i. If hobby magazine cost RM20 per unit and theatre cost RM40 per ticket, identify Damien's marginal utility per ringgit for all quantities of both goods.

(4 marks)

ii. Demonstrate the utility maximizing combination of hobby magazine and theatre ticket.

(4 marks)

iii. If the price of hobby magazine increases to RM40 per unit, how does Damien's marginal utility per ringgit for hobby magazine change? State Damien's new utility maximizing combination for hobby magazine and theatre. Using algebraic statement, prove that the utility – maximizing rule is fulfilled.

(5 marks)

(Total: 25 marks)

QUESTION 3

(a) About 244,000 metric tons of gold has been discovered to date (187,000 metric tons historically produced plus current underground reserves of 57,000 metric tons). Most of that gold has come from just three countries, China, Australia, and South Africa. Assume that the gold-mining industry is competitive.

i. Illustrate a long-run equilibrium using diagrams for the gold market and for a representative gold mine.

(9 marks)

ii. Suppose that an increase in jewellery demand induces a surge in the demand for gold. Using the diagram from answer part (i), show what happens in the short run to the gold market and to each existing gold mine.

(3 marks)

iii. If the demand for gold remains high, what would happen to the price over time? Specifically, would the new long-run equilibrium price be above, below, or equal to the short run equilibrium price in part (ii). Is it possible for the new long-run equilibrium price to the above the original long-run equilibrium price? Explain.

(3 marks)

Continued...

(b) The process of new firms entering a profitable market and driving down prices and profits is not unique to smartphone and tablet manufacturers. Consumers are spoilt with many choices of smartphone and tablet brands ranging from Apple iPhone, Samsung, Huawei, Oppo, Vivo, Xiaomi and many others in the market.

Compare the efficiency of monopolistic competition and perfect competition.
(10 marks)

(Total: 25 marks)

QUESTION 4

(a) Identify any three important factors that shift the market demand curve for labour.
(6 marks)

(b) Complete the following table for Kaako e-scooter after 50% discount price:

Table 2

Number of workers (L)	Output of e-scotter per week (Q)	Marginal Product of Labor (units of e-scotter per week) (MP)	Product Price (RM per unit) (P)	Marginal Revenue Product of Labor (RM per week)	Wage (RM per week) (W)	Additional Profit from hiring one more worker (RM per week)
0	0	-	900	-	2700	-
1	7		900		2700	
2	13		900		2700	
3	18		900		2700	
4	22		900		2700	
5	25		900		2700	
6	27		900		2700	

(6 marks)

i. Using the information in the table 2, discuss whether the firm is a price taker or a price maker?
(3 marks)

ii. Refer to the table 2; draw a graph that shows the demand for labour by this firm. Please indicate the profit-maximizing quantity of labour on the graph.
(4 marks)

Continued...

(c)

Shopee's retrenchment wave hits Malaysian ops

Ecommerce titan Shopee has slashed jobs in Malaysia following a retrenchment round in three other countries. People familiar with the matter told Tech in Asia that an announcement by senior management was made during a Monday town hall.

A source who was affected by the job cuts couldn't confirm the number of employees who were laid off, but they told us that some of their affected peers came from the business development, marketing, and customer service departments.

The delay for Malaysia was due to the scale and size of the exercise, the source said, but they added that cuts "remain in the low single-digit percentage across all teams affected."

In a statement, Shopee said that like last week's exercise, the Malaysia cuts are part of ongoing efforts to "optimize operating efficiency with the goal of achieving self-sufficiency across our business."

Source: Techinasia, 29 September 2022.

i. Examine how the job cuts by Shopee will change the e-commerce industry's short-run average cost curves and marginal cost curve.

(3 marks)

ii. In the short-run, there is a direct relationship between marginal cost and marginal product (under the assumption that the additional input is purchased at a fixed price). Explain this relationship between marginal cost and marginal product.

(3 marks)

(Total: 25 marks)

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